

Auditing Procedures Report

Issued under Public Act 2 of 1968, as amended.

Unit Name Watertown Charter Township	County CLINTON	Type TOWNSHIP	MuniCode 19-1-150
Opinion Date June 25, 2008	Audit Submitted June 27, 2008	Fiscal Year 2007	

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/> 1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/> 2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/> 3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/> 4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/> 5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/> 6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/> 7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/> 8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/> 9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/> 10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/> 11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/> 12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/> 13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? <u>NA</u>
<input checked="" type="checkbox"/> 15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/> 16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/> 17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/> 18. Are there reported deficiencies? <input checked="" type="checkbox"/> 19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 2,061,481.00
General Fund Expenditure:	\$ 1,904,935.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 2,628,294.00
Governmental Activities Long-Term Debt (see instructions):	\$ 884,889.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name) David	Last Name Fisher	Ten Digit License Number 1101010337		
CPA Street Address 675 Robinson Road	City Jackson	State Mi	Zip Code 49203	Telephone +1 (517) 841-4214
CPA Firm Name Rehmann Roibson	Unit's Street Address 12803 Wacousta Rd	City Grand Ledge	Zip Code 48837	

WATERTOWN CHARTER TOWNSHIP

Clinton County, Michigan

FINANCIAL STATEMENTS

**For the Year Ended
December 31, 2007**



REHMANN ROBSON

Certified Public Accountants

WATERTOWN CHARTER TOWNSHIP

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report.....	1-2
Management's Discussion and Analysis.....	3-8
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities.....	10-11
Fund Financial Statements:	
Balance Sheet – Governmental Funds	12
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.....	16-17
Statement of Net Assets – Proprietary Funds.....	18
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds.....	19
Statement of Cash Flows – Proprietary Funds	20-21
Statement of Fiduciary Net Assets – Agency Funds.....	22
Notes to the Financial Statements	23-38
Combining Fund Financial Statements -	
Combining Balance Sheet – Nonmajor Governmental Funds	39
Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	40

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

June 25, 2008

Board of Trustees
Watertown Charter Township
Grand Ledge, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of ***Watertown Charter Township, Michigan***, as of and for the year ended December 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Watertown Charter Township, Michigan, as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Watertown Charter Township's basic financial statements. The combining fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As the Township Board of Watertown Charter Township, Clinton County, Michigan, we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended December 31, 2007.

Financial Highlights

- The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$10,809,419 (*net assets*). Of this amount, \$7,655,732 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors. The assets of the Township at the close of 2006 as restated (see footnote 4-F, page 38) exceeded its liabilities by \$11,006,421 (*net assets*). of this amount, \$10,205,378 was unrestricted net assets.
- The government's total net assets decreased by \$197,002 in 2007 compared to an increase of \$298,491 during 2006.
- As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$2,917,621 an increase of \$189,806 in comparison with the prior year ending fund balance of \$2,727,815. Approximately 89 percent of this total amount, or \$2,607,689 is available for spending at the government's discretion (*unreserved fund balance*) compared to \$2,433,328 at the end of 2006.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$2,607,689 or 99 percent of total general fund expenditures compared to \$2,433,328 or 89 percent ending in 2006.
- The Township's total bonded debt decreased by \$456,335 during the current fiscal year; from \$5,908,335 ending in 2006 to \$5,452,000 fiscal year end 2007.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Township include legislative, general government, public safety, public works, and parks and recreation. The business-type activities of the Township include sanitary sewer and water distribution operations.

The government-wide financial statements can be found on pages 9-11 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund, and for the three nonmajor funds in the aggregate.

The Township adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 12-17 of this report.

Proprietary funds. *Enterprise funds, the only propriety fund type used by the Township*, are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Township uses enterprise funds to account for its sanitary sewer and for water distribution operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements provide separate information for the sanitary sewer and water distribution systems, both of which are considered to be major funds of the Township.

The basic proprietary fund financial statements can be found on pages 18-21 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 22 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-38 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Watertown Charter Township, assets exceeded liabilities by \$10,809,419 at the close of the most recent fiscal year.

Of the Township's net assets, \$2,864,360 (26 percent) reflects its investment in capital assets (e.g. infrastructure, land, buildings, equipment, and vehicles); less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

See page 9-11 Watertown **Charter Township's Net Assets**, for details related to this discussion.

In addition, the Township owns assets in a joint venture with Eagle Township known as the Looking Glass Regional Fire Authority. Currently the Authority is funded primarily thru contributions from Watertown Charter Township (65%) and Eagle Township (35%). The Authority reported Capital Assets (net of depreciation) of \$1,749,704 as of December 31, 2006 and \$1,543,334 as of December 31, 2007 for fixtures, building, equipment, and land.

At the end of the current year, the Township is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The government's net assets decreased by \$197,002 during the current fiscal year. Much of the decrease is attributable to a reduction in funds granted by the Granger Landfill Trust to cover the costs of providing the curbside recycling program.

See page 10-11 Watertown **Charter Township's Statement of Activities**, for details related to this discussion.

Governmental activities. Governmental activities increased the Township's net assets by \$233,023 during fiscal year 2007. Key elements of this change relate to reduction in grant funds offset by delays in road construction activities.

Business-type activities. Business-type activities decreased the Township's net assets by \$430,025 during fiscal year 2007 due primarily to the recording of a re-valuation in ownership in SCCMUA.

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets						
Current and other assets	\$ 4,919,119	\$ 4,822,451	\$ 7,557,206	\$ 10,665,181	\$ 12,476,325	\$ 15,487,632
Capital assets	205,070	194,429	5,834,619	5,505,629	6,039,689	5,700,058
Total assets	5,124,189	5,016,880	13,391,825	16,170,810	18,516,014	21,187,690
Liabilities						
Long-term liabilities outstanding	2,023,228	2,098,485	200,586	195,891	2,223,814	2,294,376
Other liabilities	884,889	935,344	4,597,892	4,997,460	5,482,781	5,932,804
Total liabilities	2,908,117	3,033,829	4,798,478	5,193,351	7,706,595	8,227,180
Net assets						
Invested in capital assets, net of related debt	205,070	194,429	2,659,290	326,255	2,864,360	520,684
Restricted	289,327	280,359	-	-	289,327	280,359
Unrestricted	1,721,675	1,508,263	5,934,057	10,651,204	7,655,732	12,159,467
Total net assets	\$ 2,216,072	\$ 1,983,051	\$ 8,593,347	\$ 10,977,459	\$ 10,809,419	\$ 12,960,510
	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue						
Program revenues						
Charges for services	\$ 272,522	\$ 243,888	\$ 697,312	\$ 652,545	\$ 969,834	\$ 896,433
Operating grants and contributions	41	51	-	-	41	51
Capital grants and contributions	76,313	61,117	-	2,405,000	76,313	2,466,117
General revenues						
Property taxes	1,186,200	1,098,633	-	-	1,186,200	1,098,633
Other	572,854	625,034	-	76,501	572,854	701,535
Special item	-	-	-	-	-	-
Total revenue	2,107,930	2,028,723	697,312	3,134,046	2,805,242	5,162,769
Expenses:						
Legislative	33,574	35,494	-	-	33,574	35,494
General government	785,655	756,599	-	-	785,655	756,599
Public safety	456,252	530,504	-	-	456,252	530,504
Public works	469,458	800,257	-	-	469,458	800,257
Community and economic development	81,697	81,586	-	-	81,697	81,586
Recreation and cultural	21,523	10,206	-	-	21,523	10,206
Interest on long-term debt	45,927	6,499	-	-	45,927	6,499
Sewage disposal	-	-	570,258	536,357	570,258	536,357
Water extension	-	-	537,900	152,684	537,900	152,684
Total expenses	1,894,086	2,221,145	1,108,158	689,041	3,002,244	2,910,186
Change in net assets before transfers	213,844	(192,422)	(410,846)	2,445,005	(197,002)	2,252,583
Transfers	19,179	19,968	(19,179)	(19,968)	-	-
Change in net assets	233,023	(172,454)	(430,025)	2,425,037	(197,002)	2,252,583
Net assets, beginning of year	1,983,049	2,155,505	9,023,372	8,552,422	11,006,421	10,707,927
Net assets, end of year	\$ 2,216,072	\$ 1,983,051	\$ 8,593,347	\$ 10,977,459	\$ 10,809,419	\$ 12,960,510

Financial Analysis of the Government's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Township's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Township's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$2,917,621 an increase of \$189,806 in comparison with the prior year. Approximately 89 percent of this total amount constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed for prepaid expenditures.

The General Fund is the chief operating fund of the Township. At the end of the current fiscal year, unreserved fund balance of the general fund was \$2,607,689 while total fund balance was \$2,628,294. Unreserved fund balance represents 137 percent of total general fund expenditures.

The fund balance of the Township's General Fund increased by \$180,840 during the current fiscal year.

Proprietary funds. The Township's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the Sewer Fund and Water Extension Funds at the end of the year amounted to \$8,357,310 and \$236,037 respectively. The sewer fund had a decrease for the year of \$72,887 and the water fund had a decrease for the year of \$357,138.

General Fund Budgetary Highlights

Differences between the original and final amended budgeted revenues were for the most part, twofold: an increase in taxes and special assessments collected; a reduction in demand for building services continued from 2006 through 2007. Even so, overall revenues showed an increase from the previous year of \$40,251. Administrative costs continue to increase with exceptions to the costs in Public Health & Safety and Public Works.

Capital Asset and Debt Administration

Capital assets. The Township's investment in capital assets for its governmental and business type activities as of December 31, 2007, amounted to \$6,039,689 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, infrastructure, buildings and improvements, park and recreation facilities, machinery and equipment and construction in progress. The total increase in the Township's investment in capital assets for the current fiscal year of \$1,919,326 resulted primarily from investments in sewer system improvements.

Additional information on the Township's capital assets can be found in note 3-C on pages 31 of this report.

Long-term debt. At the end of the current fiscal year, the Township had total bonded debt outstanding of \$5,452,000. Of this amount, the entire debt is backed by the full faith and credit of the government.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. Additional information on the Township's long-term debt can be found in note 3-F on pages 33-36 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Township's budget for the 2008 fiscal year:

- The emphasis on controlling costs yet providing quality services to our citizens continued to be a major consideration in the 2007 budget development.
- While the total ad valorem taxable values increased from 2007 to 2008, estimates were reduced to anticipate the slowdown expected in new building and the effect on related services. In addition, assessed values of residential properties declined in early 2008, which will affect future revenues.
- Statutory state-shared revenues are expected to continue to be reduced as the state's economy continues to decline.
- The costs of construction for roads and other infrastructure improvements continue to be affected by the volatility in the cost of petroleum and petroleum based products.

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Clerk, Watertown Charter Township, 12803 S Wacousta Road, Grand Ledge, Michigan 48837, email: Jhusby@watertowntownship.com.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Net Assets

December 31, 2007

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and cash equivalents	\$ 1,102,557	\$ 411,748	\$ 1,514,305
Restricted cash and cash equivalents	-	87,708	87,708
Investments	2,268,637	2,321,818	4,590,455
Internal balances	5,800	(5,800)	-
Receivables, net	1,521,520	3,717,887	5,239,407
Prepaid items and other assets	20,605	108,353	128,958
Investment in joint venture	-	915,492	915,492
Capital assets not being depreciated	42,187	2,226,100	2,268,287
Capital assets being depreciated, net	162,883	3,608,519	3,771,402
Total assets	5,124,189	13,391,825	18,516,014
Liabilities			
Accounts payable and accrued expenses	48,058	200,586	248,644
Unearned revenue	1,975,170	-	1,975,170
Long-term liabilities:			
Due within one year	94,889	480,000	574,889
Due in more than one year	790,000	4,117,892	4,907,892
Total liabilities	2,908,117	4,798,478	7,706,595
Net assets			
Invested in capital assets, net of related debt	205,070	2,659,290	2,864,360
Restricted for:			
Capital projects	78,074	-	78,074
Improvements	211,253	-	211,253
Unrestricted	1,721,675	5,934,057	7,655,732
Total net assets	\$ 2,216,072	\$ 8,593,347	\$ 10,809,419

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Activities

For the Year Ended December 31, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 33,574	\$ -	\$ -	\$ -	\$ (33,574)
General government	785,655	55,263	-	-	(730,392)
Public safety	456,252	37,406	-	-	(418,846)
Public works	469,458	-	-	76,313	(393,145)
Community and economic development	81,697	171,782	-	-	90,085
Recreation and cultural	21,523	7,927	41	-	(13,555)
Interest on long-term debt	45,927	144	-	-	(45,783)
Total governmental activities	<u>1,894,086</u>	<u>272,522</u>	<u>41</u>	<u>76,313</u>	<u>(1,545,210)</u>
Business-type activities:					
Sewage disposal	570,258	514,889	-	-	(55,369)
Water extension	<u>537,900</u>	<u>182,423</u>	<u>-</u>	<u>-</u>	<u>(355,477)</u>
Total business-type activities	<u>1,108,158</u>	<u>697,312</u>	<u>-</u>	<u>-</u>	<u>(410,846)</u>
 Total primary government	 <u>\$ 3,002,244</u>	 <u>\$ 969,834</u>	 <u>\$ 41</u>	 <u>\$ 76,313</u>	 <u>\$ (1,956,056)</u>

continued...

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Activities (Concluded)
For the Year Ended December 31, 2007

Functions/Programs	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (1,545,210)	\$ (410,846)	\$ (1,956,056)
General revenues:			
Property taxes	1,186,200	-	1,186,200
Grants and contributions not restricted to specific programs	288,713	-	288,713
Other unrestricted revenue	131,728	-	131,728
Unrestricted investment earnings	152,298	-	152,298
Gain on sale of capital assets	115	-	115
Transfers - internal activities	19,179	(19,179)	-
Total general revenues and transfers	1,778,233	(19,179)	1,759,054
Change in net assets	233,023	(430,025)	(197,002)
Net assets, beginning of year, as restated	1,983,049	9,023,372	11,006,421
Net assets, end of year	\$ 2,216,072	\$ 8,593,347	\$ 10,809,419

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Balance Sheet

Governmental Funds

December 31, 2007

	General	Nonmajor Funds	Totals
Assets			
Cash and cash equivalents	\$ 1,093,011	\$ 9,546	\$ 1,102,557
Investments	1,961,498	307,139	2,268,637
Taxes receivable	622,461	-	622,461
Special assessments receivable	805,700	-	805,700
Due from other governments	93,359	-	93,359
Due from other funds	33,158	-	33,158
Prepaid expenditures	20,605	-	20,605
	<hr/>	<hr/>	<hr/>
<u>TOTAL ASSETS</u>	\$ 4,629,792	\$ 316,685	\$ 4,946,477
	<hr/>	<hr/>	<hr/>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Accounts payable	\$ 7,516	\$ -	\$ 7,516
Accrued wages	17,751	-	17,751
Other liabilities	1,061	-	1,061
Due to other funds	-	27,358	27,358
Deferred revenue	1,975,170	-	1,975,170
	<hr/>	<hr/>	<hr/>
Total liabilities	2,001,498	27,358	2,028,856
	<hr/>	<hr/>	<hr/>
Fund balances			
Reserved for prepaids	20,605	-	20,605
Unreserved:			
Designated for projects	1,445,837	-	1,445,837
Undesignated	1,161,852	-	1,161,852
Undesignated, reported in nonmajor:			
Special revenue funds	-	211,253	211,253
Capital projects funds	-	78,074	78,074
	<hr/>	<hr/>	<hr/>
Total fund balances	2,628,294	289,327	2,917,621
	<hr/>	<hr/>	<hr/>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 4,629,792	\$ 316,685	\$ 4,946,477
	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets
of Governmental Activities on the Statement of Net Assets
December 31, 2007

Fund balances - total governmental funds	\$ 2,917,621
--	--------------

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.

Add: capital assets not being depreciated	42,187
Add: capital assets being depreciated	162,883

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Subtract: bonds payable	(855,000)
Subtract: compensated absences	(29,889)
Subtract: accrued interest on long-term liabilities	(21,730)
	(21,730)

Net assets of governmental activities	\$ 2,216,072
---------------------------------------	--------------

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2007

	General	Nonmajor Funds	Totals
Revenue			
Taxes	\$ 1,157,423	\$ 28,777	\$ 1,186,200
Special assessments	96,189	-	96,189
Licenses and permits	292,768	-	292,768
State revenue sharing	287,193	-	287,193
Charges for services	56,769	3,970	60,739
Interest	152,298	13,587	165,885
Rentals	14,550	-	14,550
Contributions and donations	2,099	-	2,099
Other revenue	2,192	-	2,192
	<hr/>	<hr/>	<hr/>
Total revenue	2,061,481	46,334	2,107,815
	<hr/>	<hr/>	<hr/>
Expenditures			
Current:			
Legislative	33,574	-	33,574
General government	749,680	-	749,680
Public safety and health	459,871	-	459,871
Public works	497,123	-	497,123
Community and economic development	81,697	-	81,697
Recreation and cultural	5,453	-	5,453
Capital outlay	25,522	-	25,522
Debt service:			
Principal	25,000	31,335	56,335
Interest	27,015	1,031	28,046
	<hr/>	<hr/>	<hr/>
Total expenditures	1,904,935	32,366	1,937,301
	<hr/>	<hr/>	<hr/>
Revenue over expenditures	156,546	13,968	170,514
	<hr/>	<hr/>	<hr/>
Other financing sources			
Transfers in	24,179	-	24,179
Transfers out	-	(5,000)	(5,000)
Proceeds from sales of capital assets	115	-	115
	<hr/>	<hr/>	<hr/>
Total other financing sources	24,294	(5,000)	19,294
	<hr/>	<hr/>	<hr/>
Net change in fund balances	180,840	8,968	189,808
	<hr/>	<hr/>	<hr/>
Fund balances, beginning of year	2,447,454	280,359	2,727,813
	<hr/>	<hr/>	<hr/>
Fund balances, end of year	\$ 2,628,294	\$ 289,327	\$ 2,917,621
	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Reconciliation of the Statement of Revenue, Expenditures
and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2007

Net change in fund balances - total governmental funds	\$ 189,808
--	------------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	31,284
Subtract: depreciation expense	(20,643)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long term-liabilities.

Add: principal payments on long-term liabilities	56,335
--	--------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Subtract: increase in the accrual for accrued interest on bonds	(17,881)
Subtract: increase in the accrual of compensated absences	(5,880)

Change in net assets of governmental activities	<u><u>\$ 233,023</u></u>
---	--------------------------

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended December 31, 2007

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenue				
Taxes	\$ 1,154,711	\$ 1,154,711	\$ 1,157,423	\$ 2,712
Special assessments	42,521	77,509	96,189	18,680
Licenses and permits:				
Landfill	50,000	50,000	57,672	7,672
Planning, zoning & building	160,805	160,805	171,782	10,977
Franchise fees	62,000	62,000	63,314	1,314
State revenue sharing	293,500	293,500	287,193	(6,307)
Charges for services:				
Fire runs	30,250	30,250	37,406	7,156
Cemetery	9,960	10,960	11,980	1,020
Parks and recreation	250	250	1,389	1,139
Other	5,500	5,500	5,994	494
Interest	61,081	61,081	152,298	91,217
Rentals:				
Parks	5,000	5,000	6,000	1,000
Other	15,600	15,600	8,550	(7,050)
Contributions and donations:				
G.L.I.T.	5,000	5,000	1,520	(3,480)
Parks	-	-	579	579
Other revenue	1,000	1,000	2,192	1,192
Total revenue	1,897,178	1,933,166	2,061,481	128,315
Expenditures				
Legislative				
Township board	43,228	43,228	33,574	(9,654)
General government				
Supervisor	26,825	26,825	24,899	(1,926)
Elections	5,745	5,745	1,386	(4,359)
Assessor	54,424	54,424	54,209	(215)
Attorney	75,000	75,000	33,115	(41,885)
Clerk	63,565	63,565	61,392	(2,173)
Board of review	875	875	743	(132)
Treasurer	62,666	62,666	60,172	(2,494)
General services administration	405,615	407,903	354,222	(53,681)
Buildings and grounds	142,360	142,360	130,360	(12,000)
Other property	17,250	17,250	1,560	(15,690)
Cemetery	5,683	6,683	5,217	(1,466)
Insurance	25,850	25,850	21,931	(3,919)
Refunds and rebates	16,000	16,000	474	(15,526)
Total general government	901,858	905,147	749,680	(155,467)

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended December 31, 2007

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Expenditures (continued)				
Public safety and health				
Public safety and health	\$ 374,029	\$ 375,529	\$ 311,881	\$ (63,648)
Building inspection	140,085	140,085	147,990	7,905
Total public safety and health	514,114	515,614	459,871	(55,743)
Public works				
Drains at large	13,354	13,354	13,353	(1)
Highways, streets, and bridges	259,300	759,350	461,196	(298,154)
Street lighting	22,331	22,872	22,574	(298)
Total public works	294,985	795,576	497,123	(298,453)
Community and economic development				
Planning and zoning	118,303	118,303	81,697	(36,606)
Recreation and cultural				
Parks and recreation	7,502	7,502	5,453	(2,049)
Capital outlay	23,500	36,310	25,522	(10,788)
Debt service				
Principal	5,000	25,000	25,000	-
Interest	15,189	29,586	27,015	(2,571)
Total debt service	20,189	54,586	52,015	(2,571)
Total expenditures	1,923,679	2,476,265	1,904,935	(571,330)
Revenue over (under) expenditures	(26,501)	(543,100)	156,546	699,646
Other financing sources				
Transfers in	27,000	27,000	24,179	(2,821)
Proceeds from sales of capital assets	-	-	115	115
Total other financing sources	27,000	27,000	24,294	(2,706)
Net change in fund balances	499	(516,100)	180,840	696,940
Fund balance, beginning of year	2,447,454	2,447,454	2,447,454	-
Fund balance, end of year	<u>\$ 2,447,953</u>	<u>\$ 1,931,354</u>	<u>\$ 2,628,294</u>	<u>\$ 696,940</u>

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN**Statement of Net Assets****Proprietary Funds****December 31, 2007**

	Sewage Disposal	Water Extension	Totals
Assets			
Current assets:			
Cash and cash equivalents	\$ 374,215	\$ 37,533	\$ 411,748
Restricted cash	49,159	38,549	87,708
Investments	1,780,688	541,130	2,321,818
Accounts receivable	13,636	-	13,636
Interest receivable	24,638	23,397	48,035
Current portion of special assessments receivable	36,682	56,959	93,641
Due from other funds	10,800	-	10,800
Deferred charges	80,051	28,302	108,353
Total current assets	2,369,869	725,870	3,095,739
Noncurrent assets:			
Special assessments receivable, net of current portion	2,588,175	974,400	3,562,575
Investment in joint venture	915,492	-	915,492
Capital assets not being depreciated	2,226,100	-	2,226,100
Capital assets being depreciated	3,608,519	-	3,608,519
Total noncurrent assets	9,338,286	974,400	10,312,686
Total assets	11,708,155	1,700,270	13,408,425
Liabilities			
Current liabilities:			
Accounts payable	108,469	-	108,469
Accrued interest payable	67,047	25,070	92,117
Due to other funds	-	16,600	16,600
Current portion of long-term debt	310,000	170,000	480,000
Total current liabilities	485,516	211,670	697,186
Long-term liabilities:			
Due in more than one year	2,865,329	1,252,563	4,117,892
Total liabilities	3,350,845	1,464,233	4,815,078
Net assets			
Invested in capital assets, net related debt	2,659,290	-	2,659,290
Unrestricted	5,698,020	236,037	5,934,057
Total net assets	\$ 8,357,310	\$ 236,037	\$ 8,593,347

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Revenue, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2007

	Sewage Disposal	Water Extension	Totals
Operating revenue			
User fee charges	\$ 290,490	\$ 45,257	\$ 335,747
Hook-up fees and permits	50,925	53,920	104,845
Total operating revenue	341,415	99,177	440,592
Operating expense			
General administration	9,267	2,355	11,622
Sewage plant administration	266,474	-	266,474
Other operating costs	-	470,044	470,044
Depreciation	135,501	-	135,501
Total operating expense	411,242	472,399	883,641
Operating loss	(69,827)	(373,222)	(443,049)
Nonoperating revenue (expenses)			
Interest revenue	173,474	83,246	256,720
Interest expense	(159,016)	(65,501)	(224,517)
Total nonoperating revenue	14,458	17,745	32,203
Loss before capital contributions and transfers	(55,369)	(355,477)	(410,846)
Transfers			
Transfers out	(17,518)	(1,661)	(19,179)
Change in net assets	(72,887)	(357,138)	(430,025)
Net assets, beginning of year, as restated	8,430,197	593,175	9,023,372
Net assets, end of year	<u>\$ 8,357,310</u>	<u>\$ 236,037</u>	<u>\$ 8,593,347</u>

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2007

	Sewage Disposal	Water Extension	Totals
Cash flows from operating activities			
Cash received from customers	\$ 344,053	\$ 99,177	\$ 443,230
Cash payments to suppliers for goods and services	(307,364)	(473,864)	(781,228)
Net cash provided by (used in) operating activities	36,689	(374,687)	(337,998)
Cash flows from noncapital financing activities			
Transfers out	(17,518)	(1,661)	(19,179)
Net cash used in non-capital financing activities	(17,518)	(1,661)	(19,179)
Cash flows from capital and related financing activities			
Purchase of capital assets	(2,044,186)	-	(2,044,186)
Payments received on special assessments	258,827	133,636	392,463
Interest payments	(119,400)	(57,567)	(176,967)
Principal payments	(245,000)	(155,000)	(400,000)
Premium on special assessment debt	(785)	(162)	(947)
Net cash used in capital and related financing activities	(2,150,544)	(79,093)	(2,229,637)
Cash flows from investing activities			
Proceeds from investments	1,515,228	328,764	1,843,992
Interest received	203,291	88,367	291,658
Capital contributions from SCCMUA	76,807	-	76,807
Net cash provided by investing activities	1,795,326	417,131	2,212,457
Net decrease in cash and cash equivalents	(336,047)	(38,310)	(374,357)
Cash and cash equivalents, beginning of year	759,421	114,392	873,813
Cash and cash equivalents, end of year	<u>\$ 423,374</u>	<u>\$ 76,082</u>	<u>\$ 499,456</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Cash Flows
Proprietary Funds (Concluded)
For the Year Ended December 31, 2007

	Sewage Disposal	Water Extension	Totals
Reconciliation to the Statement of Net Assets			
Cash and cash equivalents	\$ 374,215	\$ 37,533	\$ 411,748
Restricted cash	49,159	38,549	87,708
	<u>\$ 423,374</u>	<u>\$ 76,082</u>	<u>\$ 499,456</u>
Cash flows from operating activities			
Operating loss	\$ (69,827)	\$ (373,222)	\$ (443,049)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation	135,501	-	135,501
(Increase) decrease in:			
Accounts receivable	2,638	-	2,638
Deferred charges	6,062	2,326	8,388
Increase (decrease) in:			
Accounts payable	(37,685)	(3,791)	(41,476)
Net cash provided by (used in) operating activities	<u>\$ 36,689</u>	<u>\$ (374,687)</u>	<u>\$ (337,998)</u>
Noncash transactions			
Loss on investment in SCCMUA	\$ (41,779)	\$ -	\$ (41,779)

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Fiduciary Net Assets
December 31, 2007

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 659,719
Investments	<u>1,052,017</u>
 Total assets	 <u><u>\$ 1,711,736</u></u>
 Liabilities	
Current tax distributions and deposits payable	 <u><u>\$ 1,711,736</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1-A. Reporting entity

Watertown Charter Township, Michigan is a municipal corporation governed by an elected supervisor and a seven-member board. The Township has adopted the position of the Governmental Accounting Standards Board (GASB) Statement #14 regarding the definition of reporting entity and has determined that no entities should be consolidated into the financial statements as component units. The criteria for including a component unit include significant operational or financial relationships with the government.

1-B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

1-C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, intergovernmental revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The government reports the following major proprietary funds:

The *sewage disposal fund* accounts for the activities of the government's sewage disposal system.

The *water extension fund* accounts for the activities of the government's water distribution system.

Additionally, the government reports the following fund types:

Special revenue funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Debt service funds. These funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Capital projects funds. These funds account for revenue sources that are legally restricted to expenditures for major capital projects.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Agency funds. These funds account for assets held for other governments in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewage disposal and water enterprise funds are charges to customers for sales and services. The enterprise fund also recognizes as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

1-D. Assets, liabilities and equity

Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	15-40
System infrastructure	40
Vehicles	5
Equipment	5-10

Compensated absences

It is the government's policy to permit eligible employees to accumulate earned but unused vacation and sick pay benefits. Union employees are allowed to accumulate an unlimited amount of sick leave and non-union employees are allowed to accumulate 480 hours of sick leave, which is paid only upon illness while in the employ of the Township or at a rate of 50% upon retirement. Union employees are allowed to accumulate five days of vacation time and non-union employees are allowed to accumulate ten days of vacation time. Employees are only paid for unused vacation at the time of termination. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance, if any, represent tentative management plans that are subject to change.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

2-A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budgets for the General Fund and the Special Revenue Fund are adopted at the department level.

The government does not utilize encumbrance accounting.

NOTE 3 – DETAILED NOTES ON ALL FUNDS

3-A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets to deposits and investments as classified for note disclosure purposes is as follows:

Statement of Net Assets

Cash and cash equivalents	\$ 1,514,305
Restricted cash and cash equivalents	87,708
Investments	4,590,455

Statement of Fiduciary Net Assets

Cash and cash equivalents	659,719
Investments	<u>1,052,017</u>

Total	<u><u>\$ 7,904,204</u></u>
--------------	-----------------------------------

Deposits and investments

Bank deposits (checking and savings accounts)	\$ 3,805,284
Investments	4,098,520
Cash on hand	<u>400</u>

Total	<u><u>\$ 7,904,204</u></u>
--------------	-----------------------------------

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

The Township chooses to disclose its investments by specifically identifying each. As of year end, the Township had the following and investments.

Investment	Carrying Amount (Fair Value)	Credit Rating	Maturity
Governmental money market:			
J.P. Morgan Chase	\$ 169,714	Unrated	N/A
Citizens	1,361,118	Unrated	N/A
Fifth Third	112,532	Unrated	N/A
MBIA	<u>2,455,156</u>	AAA V1+ Fitch	N/A
Total	<u>\$ 4,098,520</u>		

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the accounting policies. The Township's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturities of investments, where applicable, have been identified above for the Township's investments.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the accounting policies. The Township's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings, where applicable, have been identified above for the Township's investments.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of year end, \$ 2,285,221 of the Township's bank balance of \$ 3,485,221 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Township does not have a policy for investment custodial credit risk. None of the Township's investments were exposed to custodial credit risk at year end.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the accounting policies. The Township's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

3-B. Receivables

Receivables as of year end are as follows:

	General	Nonmajor	Sewage	Water		Amounts Not
	Fund	Governmental	Disposal	Extension		Expected to
	Fund	Funds	Enterprise	Enterprise	Total	be Collected
			Fund	Fund		Within
						One Year
Taxes receivable	\$ 622,461	\$ -	\$ -	\$ -	\$ 622,461	\$ -
Special assessments receivable	805,700	-	2,624,857	1,031,359	4,461,916	3,562,575
Accounts receivable	-	-	13,636	-	13,636	-
Interest receivable	-	-	24,638	23,397	48,035	-
Due from other governments	93,359	-	-	-	93,359	-
	\$1,521,520	\$ -	\$ 2,663,131	\$ 1,054,756	\$ 5,239,407	\$ 3,562,575

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

3-C. Capital assets

Capital assets activity for the year ended December 31, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<i>Governmental Activities</i>				
Capital assets not being depreciated:				
Land	\$ 41,570	\$ 617	\$ -	\$ 42,187
Capital assets being depreciated:				
Buildings and improvements	187,312	8,567	10,850	185,029
Equipment	96,693	22,100	-	118,793
Vehicles	27,300	-	-	27,300
Total capital assets being depreciated	<u>311,305</u>	<u>30,667</u>	<u>10,850</u>	<u>331,122</u>
Less accumulated depreciation for:				
Buildings and improvements	(89,224)	(7,171)	(10,850)	(85,545)
Equipment	(63,762)	(8,012)	-	(71,774)
Vehicles	(5,460)	(5,460)	-	(10,920)
Total accumulated depreciation	<u>(158,446)</u>	<u>(20,643)</u>	<u>(10,850)</u>	<u>(168,239)</u>
Total capital assets being depreciated, net	<u>152,859</u>	<u>10,024</u>	<u>-</u>	<u>162,883</u>
Governmental activities capital assets, net	<u>\$ 194,429</u>	<u>\$ 10,641</u>	<u>\$ -</u>	<u>\$ 205,070</u>
<i>Business-type Activities</i>				
Capital assets not being depreciated:				
Construction in progress	\$ 181,914	\$ 2,044,186	\$ -	\$ 2,226,100
Capital assets being depreciated:				
Sewage disposal system	5,418,067	-	-	5,418,067
Water extension	1,734,895	-	1,734,895	-
Total capital assets being depreciated	<u>7,152,962</u>	<u>-</u>	<u>1,734,895</u>	<u>5,418,067</u>
Less accumulated depreciation for:				
Sewage disposal system	(1,674,047)	(135,501)	-	(1,809,548)
Water extension	(155,200)	-	(155,200)	-
Total accumulated depreciation	<u>(1,829,247)</u>	<u>(135,501)</u>	<u>(155,200)</u>	<u>(1,809,548)</u>
Total capital assets being depreciated, net	<u>5,323,715</u>	<u>(135,501)</u>	<u>1,579,695</u>	<u>3,608,519</u>
Business-type activities capital assets, net	<u>\$ 5,505,629</u>	<u>\$ 1,908,685</u>	<u>\$ 1,579,695</u>	<u>\$ 5,834,619</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Depreciation expense was charged to functions/programs of the Township as follows:

Governmental activities:

General government	\$ 13,173
Recreation and cultural	7,470

Total depreciation expense - governmental activities	\$ 20,643
---	------------------

Business-type activities:

Sewage disposal	\$ 135,501
-----------------	------------

3-D. Payables

Payables as of year end are as follows:

	General Fund	Government- Wide Statements	Sewage Disposal Enterprise Fund	Water Extension Enterprise Fund	Total
Accounts payable	\$ 7,516	\$ -	\$ 108,469	\$ -	\$ 115,985
Accrued wages	17,751	-	-	-	17,751
Accrued interest payable	-	21,730	67,047	25,070	113,847
Other liabilities	1,061	-	-	-	1,061
	\$ 26,328	\$ 21,730	\$ 175,516	\$ 25,070	\$ 248,644

3-E. Interfund receivables, payables and transfers

Interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. At December 31, 2007, due to/due from other funds consisted of the following:

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

	<u>Receivable</u>	<u>Payable</u>
Due from/to other funds:		
General Fund	\$ 33,158	\$ -
Non-major Governmental Funds	-	27,358
Sewage Disposal Fund	10,800	-
Water Extension Fund	-	16,600
	<u>\$ 43,958</u>	<u>\$ 43,958</u>

For the year ended December 31, 2007, interfund transfers consisted of \$17,518 and \$1,661 from the Sewage Disposal Enterprise Fund and the Water Extension Enterprise Fund, respectively, to the General Fund for administrative costs and to reimburse the General Fund for prior year operating subsidies. In addition, the Cemetery Improvement nonmajor governmental fund transferred \$5,000 to the General Fund for cost reimbursement.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected to finance various programs accounted for in other funds in accordance with budgetary authorizations.

3-F. Long-term debt

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. No general obligation bonds were issued during the current year.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds are issued as 10 to 20-year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

Governmental Activities:

Bonds Payable:

\$345,000 special assessment bonds due in annual installments of \$5,000 to \$25,000 through August 1, 2021, interest at 5.0%.	\$ 340,000
--	------------

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

\$535,000 special assessment bonds due in annual installments of \$20,000 to \$40,000 through August 1, 2021, interest at 3.875% \$ 515,000

\$ 855,000

Business-type Activities:

Bonds Payable:

\$343,000 sanitary sewer improvement project special assessment bonds due in annual installments of \$8,000 to \$26,000 through May 1, 2010, interest at 6.8% \$ 77,000

\$995,000 sewage disposal system bonds due in annual installments of \$50,000 to \$60,000 through March 1, 2020, interest at 5.1% to 7.5% 780,000

\$250,000 general obligation limited tax bonds due in annual installments of \$50,000 through August 1, 2009, interest at 2.3% to 2.9% 100,000

\$360,000 special assessment bonds due in annual installments of \$25,000 to \$30,000 through August 1, 2018, interest at 2.3% to 4.1% 285,000

\$275,000 special assessment bonds due in annual installments of \$30,000 through May 1, 2010, interest at 4.6% to 5% 90,000

\$275,000 special assessment bonds due in annual installments of \$30,000 through May 1, 2009, interest at 4.7% to 5.2% 60,000

\$990,000 special assessment bonds due in annual installments of \$70,000 to \$75,000 through August 1, 2018, interest at 2.6% to 4.6% 780,000

\$150,000 special assessment bonds due in annual installments of \$10,000 to \$15,000 through August 1, 2018, interest at 2.3% to 4.1% 120,000

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

\$2,010,000 special assessment bonds due in annual installments of \$85,000 to \$150,000 through August 1, 2021, interest at 3.875% \$ 1,925,000

\$395,000 special assessment bonds due in annual installments of \$15,000 to \$30,000 through August 1, 2021, interest at 3.875% 380,000

\$ 4,597,000

Annual debt service requirements to maturity for bonds are as follows:

Year Ended December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 65,000	\$ 36,956	\$ 480,000	\$ 189,203
2009	65,000	34,156	476,000	170,026
2010	65,000	31,356	396,000	151,307
2011	65,000	28,556	340,000	136,120
2012	65,000	25,756	335,000	122,310
2013-2017	300,000	88,719	1,655,000	402,992
2018-2021	<u>230,000</u>	<u>24,313</u>	<u>915,000</u>	<u>80,298</u>
	<u>\$ 855,000</u>	<u>\$ 269,812</u>	<u>\$ 4,597,000</u>	<u>\$ 1,252,256</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Changes in Long-Term Debt. Long-term liability activity for the year ended December 31, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Primary Government</u>					
Governmental activities					
Bonds	\$ 911,335	\$ -	\$ 56,335	\$ 855,000	\$ 65,000
Compensated absences	24,009	29,889	24,009	29,889	29,889
	\$ 935,344	\$ 29,889	\$ 80,344	\$ 884,889	\$ 94,889
Business-type activities					
Bonds	\$ 4,997,000	\$ -	\$ 400,000	\$ 4,597,000	\$ 480,000
Deduct unamortized bond discounts	(13,735)	-	(1,380)	(12,355)	-
Unamortized bond premiums	14,195	-	948	13,247	-
	\$ 4,997,460	\$ -	\$ 399,568	\$ 4,597,892	\$ 480,000

For the governmental activities, compensated absences are liquidated by the general fund.

NOTE 4 – OTHER INFORMATION

4-A. Joint ventures

Southern Clinton County Municipal Utilities Authority

The Southern Clinton County Municipal Utilities Authority was created by contractual agreement between the Township, DeWitt Charter Township, Bath Charter Township, and the City of DeWitt to operate, maintain, administer and manage the sewage disposal system for the benefit of the contracting municipalities. Currently, the Township's ownership percentage in the joint venture is 16.202%. As of December 31, 2007, the Township's share of the Authority's net assets was \$915,492. Separate financial statements for the Southern Clinton County Municipal Utilities Authority are available at the office of the Authority at 3671 W. Herbison Road, DeWitt, MI 48820.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Looking Glass Regional Fire Authority

The Township created a joint fire department with Eagle Township to be known as the Looking Glass Regional Fire Authority. The Authority will provide fire protection services to the entire geographical area comprising Eagle Township and the Charter Township of Watertown, and may contract with other municipalities to provide fire protection services. Currently, the Authority is funded primarily through contributions from Watertown Charter Township (65%) and Eagle Township (35%). During the year ended December 31, 2007, the Township contributed \$305,900 to the Authority. Separate financial statements for the Looking Glass Regional Fire Authority are available at the office of the Authority at 7720 W. Grand River Avenue, Grand Ledge, MI 48837.

4-B. Risk management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2007, the government carried commercial insurance to cover all risks of losses. The Township has had no settled claims from these risks that exceeded its commercial coverage in any of the past three fiscal years.

4-C. Property taxes

The government's property taxes are levied on the assessed taxable value of property in the Township each December 1, which is the lien date, and are due in full by March 1 of the succeeding year, at which time uncollected taxes become delinquent. The December 1 levy is recorded as a receivable and deferred revenue at year end because it is intended to fund expenditures of the following fiscal year.

Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the Township for the 2006 levy were assessed and equalized at \$204,04,876 (not including properties subject to Industrial Facilities Tax exemption), representing roughly 50% of estimated current market value. The government's general operating tax rate for the 2006 levy was 4.5277 mills, with an additional 0.1198 mills for debt retirement.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

4-D. Pension plan

The Watertown Charter Township Group Pension Plan is a defined contribution pension plan established by the Township to provide retirement benefits to all participating full-time employees of the Township. Plan provisions and contribution requirements are established and may be amended by the Township Board. The Township is required to contribute 10% of employee gross earnings. Employee contributions are optional. Employee contributions vest immediately, whereas employer contributions vest at a rate of 20% per year.

For the year ended December 31, 2007, the Township's contribution to the Plan was \$39,770. Employee contributions were \$14,327.

4-E. State Construction Code Act Compliance

Public Act 245 of 1999 amended the State Construction Act to require Michigan municipal governments to establish fees that bear a reasonable relationship to the cost of operating their building departments, effective January 1, 2000. The Township has elected to record this activity in the General Fund.

For the year ended December 31, 2007, the Township's revenue and expenditures related to its building department were as follows:

Revenue – Building fee revenue	\$ 165,022
Expenditures	<u>175,382</u>
Current year loss	<u>\$ 10,360</u>
Losses absorbed in 2000-2007	<u>\$ 30,527</u>

4-F. Restatements

The beginning net assets of the Water Extension Fund were decreased by \$1,579,695 to properly adjust for capital assets previously recorded by the Township which the Township does not own.

The beginning net assets of the Sewage Disposal Fund were decreased by \$374,394 to adjust for the equity attributed to Watertown Township included in the Southern Clinton County Municipal Utilities Authority's audited financial statements for the year ended December 31, 2006.

* * * * *

COMBINING FUND
FINANCIAL STATEMENTS

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2007

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
	<u>Township Improvement Revolving</u>	<u>Wastewater Treatment Plant Bonds</u>	<u>Cemetery Improvement</u>	<u>Totals</u>
Assets				
Cash and cash equivalents	\$ 4,631	\$ -	\$ 4,915	\$ 9,546
Investments	233,980	-	73,159	307,139
<u>TOTAL ASSETS</u>	<u>\$ 238,611</u>	<u>\$ -</u>	<u>\$ 78,074</u>	<u>\$ 316,685</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Due to other funds	\$ 27,358	\$ -	\$ -	\$ 27,358
Fund balances				
Unreserved, undesignated	211,253	-	78,074	289,327
<u>TOTAL LIABILITIES, AND FUND BALANCES</u>	<u>\$ 238,611</u>	<u>\$ -</u>	<u>\$ 78,074</u>	<u>\$ 316,685</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Combining Statement of Revenue, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended December 31, 2007

	Special Revenue	Debt Service	Capital Projects	
	Township Improvement Revolving	Wastewater Treatment Plant Bonds	Cemetery Improvement	Totals
Revenue				
Taxes and special assessments	\$ -	\$ 28,777	\$ -	\$ 28,777
Charges for services-cemetery	-	-	3,970	3,970
Interest and rentals	10,059	144	3,384	13,587
Total revenue	10,059	28,921	7,354	46,334
Expenditures				
Debt service:				
Principal	-	31,335	-	31,335
Interest	-	1,031	-	1,031
Total expenditures	-	32,366	-	32,366
Revenue over (under) expenditures	10,059	(3,445)	7,354	13,968
Other financing sources				
Transfers out	-	-	(5,000)	(5,000)
Net changes in fund balances	10,059	(3,445)	2,354	8,968
Fund balances, beginning of year	201,194	3,445	75,720	280,359
Fund balances, end of year	\$ 211,253	\$ -	\$ 78,074	\$ 289,327



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE
UNDER SAS NO. 114**

June 25, 2008

To the Board of Trustees of the
Watertown Township
Grand Ledge, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ***Watertown Township*** (the "Township") for the year ended December 31, 2007, and have issued our report thereon dated June 25, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated March 14, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing communicated to you during various discussions throughout the audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements was (were):

The disclosure of two prior period adjustments in Note 4-F to the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 25, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the *Watertown Township* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is positioned below the "Very truly yours," text.

Watertown Township

Comments and Recommendations

For the Year Ended December 31, 2007

In planning and performing our audit of the financial statements of the Watertown Township (the "Township") as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider a certain deficiency, as described below, to be significant deficiency in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Significant Deficiencies

2007-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria: The preparation of financial statements in accordance with GAAP is the responsibility of the Township's management and requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting financial statements including the related footnotes (i.e., external financial reporting.)

Watertown Township

Comments and Recommendations (Continued)

For the Year Ended December 31, 2007

Condition: As is the case with many smaller and medium-sized entities, the Township has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the Township's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the Township's internal controls.

Cause: This condition was caused by management's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Township to perform this task internally.

Effect: As a result of this condition, the Township lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible

Officials:

The Township has evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Township to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Other Matters

Documenting Review and Approval of Bank Reconciliations

Effective internal control procedures should provide a clear evidence trail of who performed what procedure and when. The Township is diligent in completing its bank reconciliations on a timely basis and having those reconciliations reviewed by an independent person. However, there is no indication of the independent review of the bank reconciliations by initialing and dating these schedules to document who and when these internal control procedures were performed. We recommend that the reviewer of each monthly bank reconciliation initial and date the document to provide evidence that these procedures were done and to provide a complete audit trail.

Watertown Township

Comments and Recommendations (Concluded)

For the Year Ended December 31, 2007

IT Security- Passwords

Passwords in the accounting application are not changed on a regular basis. In order to reduce the risk of access to computer files by unauthorized personnel, we recommend that the Township institute a policy that requires passwords to be changed on a regular basis. This should be written into the end-user computer policy and added as an automatic expiration of passwords if the application offers that capability.

* * * * *